Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Message Text

PAGE 01 EC BRU 11929 01 OF 03 061909Z
66
ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 STRE-00 INT-05 AID-05
CEA-01 CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00
CIEP-01 SP-02 STR-04 TRSE-00 LAB-04 SIL-01 OMB-01
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FM USMUSSION EC BRUSSELS
TO SECSTATE WASHDC PRIORITY 2506
INFO ALL EC CAPITALS 2823
AMEMBASSY TOKYO PRIORITY
USMISSION MTN GENEVA
USMISSION OECD PARIS
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LIMITED OFFICIAL USE SECTION 1 OF 3 EC BRUSSELS 11929

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E.O. 11652: N/A
TAGS: EEC, ETRD, EIND, MTN, OECD, JP
SUBJECT: US/EC STEEL DISCUSSIONS DECEMBER 2-3, 1976

1. SUMMARY: US/EC STEEL DISCUSSIONS PROVIDED VERY USEFUL EXCHANGE OF INFORMATIONS AND VIEWS, WHICH REVEALED MAJOR DIFFERENCES IN PERSEPECTIVE ON CURRENT STEEL PROBLEMS AND APPROPRIATE RESPONSES. EC APPEARS TO BE COUNTING HEAVILY ON SIMONET PLAN TO STAVE OFF DISRUPTION OF COMMON STEEL POLICY. US DEL EXPRESSED SERIOUS CONCERN ABOUT POTENTIAL SHORT AND LONG TERM TRADE DISTORTING EFFECTS OF THIS APPROACH. EC EXPLAINED RESULTS OF THEIR DIS-CUSSIONS WITH GOJ BUT DENIES THERE WAS AN AGREEMENT OR UNDERSTANDING. GOJ HAD INDICATED A 15 PERCENT CUT IN EXPORTS TO EC NEXT YEAR, AND THAT IT WOULD TRY TO PERSUADE PRODUCERS TO PRICE EXPORTS MORE REASONABLY AND BEHAVE MORE REASONABLY IN THE SWISS MARKET. EC URGED USG TO DISMANTLE SPECIALTY STEEL QUOTAS, IN WHOLE OR PART, TO AVOID SERIOUS CONFRONTATION NEXT MARCH
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PAGE 02 EC BRU 11929 01 OF 03 061909Z

WHEN EC QUOTAS ARE LIKELY TO BE FILLED AND SAID THAT IN ANY EVENT USG SHOULD BE THINKING ABOUT INAUGURATIING PROCEDURES TO MANAGE THE PROBLEM. US DEL EXPRESSED WILLINGNESS TO SEE WHAT MIGHT BE DONE BUT REVIEWED

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

CONSTRAINTS ON POSSIBLE ACTIONS. EC ARGUED STRONGLY
FOR HANDLING STEEL PROBLEMS THROUGH INFORMAL SYSTEM
OF BILATERAL CONSULTATION OUTSIDE OF GATT OR OTHER ORGANIZATIONAL
FRAMEWORK. US DEL ARGUED THAT SOME FRAMEWORK OF RULES
IS NEEDED TO PREVENT PROTECTIONIST TENDENCIES INHERENT
IN THAT APPROACH. END SUMMARY.

2. THE STEEL SITUATION:
ACTING COMMISSION DIRECTOR GENERAL FOR INDUSTRIAL AND
TECHNOLOGICAL AFFIRS, LOEFF, BEGAN BY POINTING OUT THAT THE EC AND
US PROBLEMS HAD MANY COMMON ASPECTS AND THAT HE HOPES THE
TALKS WOULD BE CONDUCTED WITHIN THE CONTECT OF BETTER
UNDERSTANDING WITHOUT CONFRONTATION. HE SUGGESTED
THAT COOPERATION IS NEEDED IN THIS FIELD AND THAT REGULAR
BILATERAL DISCUSSIONS MIGHT BE FRUITFUL.
(THE EC ALREADY HAS SUCH MEETINGS WITH JAPAN, AUSTRIA AND
SWEDEN.)

3. US DEL SKETCHED SITUATION IN US MARKET WITH
DECLINING OPERATING RATES, EMPLOYMENT, SHIPMENT AND PROFIT
LEVELS ACCOMPANIED BY RECENT INCREASES IN IMPORT PENETRATION
RATIOS AND PARTICULARLY DRAMATIC INCREASE IN JAPANESE IMPORTS
WHICH ARE FIVE TIMES LARGER IN VOLUME THAN JAPANESE EXPORTS
TO EC. US DEL REVIEWED PENDING TRADE ACTIONS INITIATED BY US
STEEL INDUSTRY. USG CONCERN ABOUT WORSENING DOMESTIC SITUATIION
WAS ALSO EMPHASIZED.

4. LOEFF REVIEWED RECENT EC DEVELOPMENTS WHEREBY THE SEVERE
1975 DEPRESSION GAVE WAY, IN EARLY 1976, TO A SLIGHT
IMPROVEMENT. SINCE SUMMER, HOWEVER, THE SITUATION HAS WORSENED
DRAMATICALLY WITH CAPACITY UTILIZATION PRESENTLY AT
ABOUT 65 PERCENT(COMPARED TO 87 PERCENT IN 1974)
AND AROUND 50 PERCENT IN SEVERAL HARD HIT REGIONS. ORDERS HAVE
DROPPED OFF SHARPLY. NET EXPORTS MEANWHILE HAVE FALLEN FROM
27 MILLION METRIC TONS (IN CRUDE STEEL EQUIVALENT) IN 1974 TO
SEVEN MILLION TONS IN 1976 AS THE EC HAS BEEN SQUEEZED BY
IMPORTS IN ITS DOMESTIC MARKET (UP 5.5 MIL TONS THIS YEAR)
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AND LOSSES IN ITS EXPORT MARKETS (DOWN 6.5 MIL TONS IN 1976).
DURING SAME TIME PERIOD US IMPORTS AND EXPORTS HAVE CHANGED
VERY LITTLE. THESE DEVELOPMENTS COMBINED WITH DECLINING
PRICES HAVE ERASED THE FINANCIAL RESERVES BUILT UP DURING THE
RELATIVELY GOOD YEAR OF 1974 TO THE POINT WHERE MANY
COMPANIES WILL FAIL IF THE SITUATION CONTINUES.
THE JAPANESE PROBLEM WAS REPORTED TO BE THEIR AGGRESSIVE
EXPORT POLICY WHICH HAS RESULTED IN DISPLACEMENT OF EC
EXPORTS TO PRIME TRADITIONAL EXPORT MARKETS.
IN ADDITION, BY CUTTING PRICES, THE JAPANESE HAVE MADE
INROADS IN EC MARKET (THOUGH THE INROADS SEEMED MINOR IN
THE VIEW OF THE US DEL IN RELATION TO OVERALL IMPORT INCREASES).

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

5. THE SITUATION IS SO BAD, LOEFF SAID, THAT THE PROBLEM
FACING THE EC IS NO LESS THAN HOW TO PRESERVE THE COMMON
MARKET FOR STEEL. HE POINTED OUT THAT THE PARIS TREATY WHICH
ESTABLISHED THE EUROPEAN COAL AND STEEL COMMUNITY LEFT TARIFF
AND SAFEGUARD POWERS IN THE HANDS OF MEMBER STATES (ALTHOUGH
POWERS FOR TARIFF NEGOTIATIONS WERE DELEGATED TO COMMISSION
ON AD HOC BASIS). IF THE EC DOESN'T ACT, THEN SOME MEMBER
STATES MAY TAKE UNILATERAL ACTIONS. LOEFF SAID HE THOUGHT
THAT THE US INTEREST WOULD CERTAINLY BE IN HOLDING TOGETHER
THE COMMON MARKET FOR STEEL.

6. LOEFF SAID THAT WHILE HE HAD IMPRESSION THAT
THERE WAS GENERAL PARALLEL DEVELOPMENT IN EC AND US
STEEL INDUSTRY, HE FELT THE EC SITUATION WAS IN FACT WORSE
BECAUSE OF THE RATE AND DIRECTION OF RECENT
CHANGES.

7. THERE WAS AGREEMENT THAT EXPORTS HAD NOT CONTRIBUTED
TO US IMPORT PROBLEMS TO DATE ALTHOUGH US DEL CONVEYED
RECENT INDUSTRY REPORTS OF PRICE CUTTING BY
EUROPEAN SUPPLIERS IN US MARKET WHICH SUGGESTING STEPPED-UP
EXPORT EFFORTS.

8. LOEFF REPEATEDLY EXPRESSED VIEW THAT ALTHOUGH STRUCTURAL
DIFFICULITIES EXISTED MIN EC STEEL INDUSTRY THE MAIN
PROBLEM WAS THE COINCIDENCE OF DEPRESSED CYCLICAL CONDITIONS
IN WORLD MARKETS. COMMISSION INITIATIVES WERE THEREFORE AIMED AT
ENABLING THE INDUSTRY TO WEATHER THE TEMPORARY SHOCKS UNTIL THE
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PAGE 04 EC BRU 11929 01 OF 03 061909Z

CRISIS PASSES. STRUCTURAL PROBLEMS WOULD BE DEALT WITH LATER.

9. THE SIMONET PLAN (SEE EC BRUSSELS 9681, 11580, 11735)
LOEFF REVIEWED EVOLUTION OF SIMONET PLAN/AS RESPONSE TO SHORT-
COMINGS OF THE ECSC TREATY IN DEFINING WHAT
CONSTITUTES A CRISS AND THE INABILITY OF USING ITS MANIFEST
CRISIS AND THE INABILITY OF USING ITS MANIFEST
CRISIS PROVISIONS TO REACT FLEXIBLY AND PROMPTLY TO CRISIS
STIUTATIONS AS DEMONSTRATED IN 1975. THE COMMISSION WAS SEEKING
A LESS CUMBERSOME SYSTEM WHICH WOULD BE TRIGGERED BY OBJECTIVE
CRITERIA. (IT HAS APPARENTLY DEVELOPED A SERIES OF THRESHOLD
LEVELS AS OBJECTIVE CRISIS INDICATORS SUCH AS EMPLOYMENT,
CAPACITY UTILIZATION, NEW ORDERS, PRICE, PRICE/COST RATIONS.)

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PAGE 01 EC BRU 11929 02 OF 03 062040Z
66

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

ACTION EUR-12

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FM USMUSSION EC BRUSSELS
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AMEMBASSY TOKYO PRIORITY
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USMISSION OECD PARIS
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LIMITED OFFICIAL USE SECTION 2 OF 3 EC BRUSSELS 11929

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10. THE MAIN OBJECTIVE OF THE SIMONET PLAN ADOPTED
BY THE COMMISSION NOVEMBER 29 IS VOLUNTARY BURDEN
SHARING DURING DEPRESSED CONSITIONS TO BETTER BALANCE SUPPLY AND
DEMAND INSIDE THE EC SO THAT PRICES WILL BE MORE
REASONABLE AND CAPACITY WILL NOT BE LOST.
WHEN A CRISIS SITUATION HAD BEEN DECLARED BY THE COMMISSION,
THE BASIC PROCESS WOULD BE EXTENSION OF THE CURRENT FORWARD
PROGRAM OF FORECASTING QUARTERLY SUPPLY AND DEMAND FOR
INDICATIVE PURPOSES, TO COVER ACTIVITIES OF ABOUT 60
INDIVIDUAL ENTERPRISES (OR GROUPS).
EACH ENTERPRISE WOULD BE ASKED TO AGREE TO A TARGET FOR
DELIVERIES WITHIN THE EC WITH RESPECT TO FIVE OR SIX MAJOR
PRODUCT CATEGORIES (REPRESENTING 60-70 PCT OF STEEL
PRODUCTION). NATIONAL TOTAL PRODUCTION (INCLUDING GOODS FOR EXPORT
AND STOCKS) TARGETS FOR EACH MEMBER STATE WOULD ALSO BE
ESTABLISHED. HOWEVER, THERE WOULD BE NO REAL ATTEMPT TO
RESTRAIN BUILD-UP OF STOCKS OR EXPORT SALES, ONLY DOMESTIC
DELIVERIES.
THIS IS DUE TO FACT THAT GUIDELINES ONLY PROVIDE MEANINGFUL
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PAGE 02 EC BRU 11929 02 OF 03 062040Z

RESTRAINT AT THE ENTERPRISE LEVEL AND ONLY FOR DOMESTIC
SHIPMENTS.

11. EC DEL EXPRESSED AWARENESS OF POSSIBLE TRADE IMPLICATIONS
OF THIS PLAN, HE INDICATED THAT EC IS HOPEFUL THAT OUTSIDERS
WILL NOT TAKE ADVANTAGE OF THIS SITUATION AND THAT EC HAD,
OR WILL HAVE, DISCUSSIONS WITH MAJOR EXPORTERS TO ASK THAT
THEY BEHAVE IN A REASONABLE WAY. THE EC DOES NOT PLAN, HOWEVER
TO ADOPT IMPORT RESTRICTIONS OR MAKE A FORMAL INDICATION

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

TO FOREIGN EXPORTERS TO WHAT OR HOW MUCH THEY SHOULD EXPORT TO THE EC. ON THE EC EXPORT SIDE, EC DEL INDICATED IT WAS VERY CONCERNED ABOUT THE POSSIBILITY THAT THE PLAN COULD ENCOURAGE DUMPING BY EC PRODUCERS. THE ONLY CONSTRAINT ON SUCH BEHAVIOR SUGGESTED WAS THE POSSIBLE BACKFIRE EFFECT ON WORLD PRICES AND THUS IMPORT PRICES INTO THE EC.

12. THE PLAN HAS NOT YET BEEN ACTIVATED FOR THE FIRST QUARTER OF 1977, BUT A DECISION TO DO SO IS EXPECTED TO BE TAKEN BEFORE CHRISTMAS. TENTATIVE FIRST QUARTER ESTIMATES CALL FOR A 5 PERCENT CUT IN PRODUCTION FROM FOURTH QUARTER LEVELS, AND 18 PERCENT CUT IN IMPORTS, AND LITTLE CHANGE IN EXPORT LEVELS. SOME ENTERPRISES WILL BE ASKED TO ACCEPT VOLUNTARY CUTS IN DOMESTIC DELIVERIES OF SOME PRODUCTS AS HIGH AS 20-25 PERCENT. LOEFF HOPED THAT AT LEAST 95-96 PERCENT OF STEEL PRODUCERS WOULD GO ALONG AND INDICATED THAT ANY SMALLER PARTICIPATION COULD ENDANGER THE WHOLE EFFORT.

13. ON THE IMPORT SIDE, LOEFF BELIEVES THE EFTA COUNTRIES WILL BEHAVE RESPONSIBLY BECAUSE THEY HAVE AGREED TO COMPLY WITH ECSC PRICE REGULATIONS. EASTERN EUROPEAN COUNTRIES ARE COVERED BY QUANTITATIVE RESTRICTIONS IN 5 OF 9 MEMBER STATES. OTHER SUPPLIERS, SUCH AS BRAZIL AND KOREA, COULD POSSIBLY DISTURB THE MARKET AND IF SO, THE EC MIGHT LATER DECIDE TO INITIATE BILATERAL DISCUSSIONS. IF THERE IS NO IMPROVEMENT DISPITE BILATERAL EFFORTS TO OBTAIN COOPERATION, THE EC MAY TAKE FURTHER UNILATERAL ACTION. THE ONLY BILATERAL DISCUSSIONS CON-TEMPLATED ARE THOSE RECENTLY HELD WITH JAPAN AND TALKS TO BE HELD SHORTLY WITH SPAIN.

14. THE US DEL EXPRESSED SERIOUS CONCERN ABOUT A BROAD RANGE OF ASPECTS OF THE SIMONET PLAN INCLUDING THE INCENTIVE FOR
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DUMPING; PREVENTION OF THE NORMAL PROCESS WHICH ELIMINATES INEFFICIENT PRODUCERS DURING RECESSION; THE POTENTIAL INCENTIVE TO BUILD OVER-CAPACITY AS A RESULT OF LOWER DOWNSIDE RISKS; THE DANGER OF THE EC BEING DRAGGED INTO EVEN MORE OBJECTIONABLE ACTIONS; AND THE POTENTIAL FOR GREATER CARTELIZATION OF THE EC INDUSTRY.

EUROFER/DENELUX

15. EC DISCRIBED ROLE OF EUROFER (THE COMMUNITY-WIDE JOINT ASSOCIATION OF PRODUCERS WHICH WILL BE ESTABLISHED DEC.9) IN THE CRISIS PLAN, SAYING THAT THE COMMISSION COUNTED HEAVILY ON EUROFER'S INFLUENCE TO GET
INDIVIDUAL MEMBERS TO COOPERATE WITH THE CRISIS PLAN AND WOULD WORK WITH EUROFER TO HELP DETERMINE TOTAL SUPPLY/DEMAND GOALS. HOWEVER, THE COMMISSION SAID, EUROFER WOULD NOT BE THE INSTRUMENT OF ALLOCATING TO INDIVIDUAL ENTERPRISES AND THEY EXPECTED NOTHING IN ITS STATUTES WOULD GIVE IT CARTEL STATUS. LOEFF SAID

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

HE EXPECTED EUROFER TO ECLIPSE DENELUX (THE ASSOCIATION OF
NORTHERN PRODUICERS), AS THIS WAS A CONDITION OF BRITISH,
FRENCH AND ITALIAN PARTICIPATION IN EUROFER.
THE PRESEENT INFORMAL STEEL ORGANIZATION, THE STEEL CLUB,
WOULD BE EXPECTED TO DISAPPEAR WHEN EUROFER IS FORMED.

SPECIALLTY STEEL QUOTAS
16. EC COMMISSION DIRECTOR FOR NORTH AMERICAN AFFAIRS,
FIELDING, IDENTIFIED SPECIALTY STEEL AS THE ONE ITEM ON THE
AGENDA WHERE WE WERE AT EACH OTHERS THROATS AND CALLED FOR
IMMEDIATE USG CONSIDERATION OF THE ISSUE BEFORE QUOTAS
ARE FILLED IN MARCH AND CRISIS ERUPTS. FIELDING SAID THE EC WILL
HAVE TO DO SOMETHING IF THE US STOPS ITS SHIPMENTS IN MARCH.
HE DISCRIBED THE SPECIALTY STEEL PROBLEM AS A MATTER OF GRAVE
CONCERN IN US-EC RELATIONS WHICH CALLED FOR SENSITIVE HANDLING
BY THE USG. WITHOUT SUCH CONSIDERATION THE EC WOULD HAVE A VERY
HARD TIME CONTROLLING PRESSURES FROM THE EC STEEL INDUSTRY FOR
PROTECTION. HE ALSO STRONGLY IMPLIED THA THAT EEC WOULD
HAVE TO MOVE UNDER ITS GATT RIGHTS.

17. FIELDING ASKED THAT THE USG DISMANTLE THE QUOTS EITHER
WHOLLY OR IN PART AND SAID SPECIFICALLY THAT HE COULD SEE
NO JUSTIFICATION FOR THE SHEET AND STRIP QUOTA AND WAS PREPARED
TO ARGUE THAT THE ALLOY TOOL STEEL FIGURES COULD BE ADJUSTED.
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FIELDING ALSO NOTED THA THE COMMISSION HAD NOT SEEN ALL THE
MONITORING FIGURES THAT US HAD PROMISED.

18. WOLFF REPLIED THAT US MEASURES WERE FAR LESS RESTRICTIVE
THAN EC'S ON STEEL. WHILE THE EC'S ACTIONS WERE NOT DIRECTED
AT US, STEEL TRADE WAS ANALOGOUS TO HYDRAULIC SYSTEM WHERE
PRESSURES IN ONE SECTION WERE SURE TO BE FELT ELSEWHERE.
IF US WAS FORCED TO APPLY RESTRICTIONS, THEY MIGHT WELL BE ON
MFN BASIS.

19. HE EXPLAINED THAT US HAD TAKEN EC INTERESTS FULLY INTO
ACCOUNT IN ESTABLISHING SPECIALTY STEEL QUOTAS BY USING A 1971-75
BASE PERIOD TO ESTABLISH QUOTA LEVELS THUS PROTECTING
TRADTIONAL SUPPLIERS, AND THAT EC QUOTAS WERE QUITE GENEROUS
EVEN IN RELATION TO THOSE LEVELS. US DEL EXPLAINED THERE MAY
BE SOME SHORTFALL ADJUSTMENTS LATER ON, BUT THIS REMAINED TO BE
SEEN. WOLFF REVIEWED PROCEDURES FOR REDUCING OR TERMINATING
RELIEF WHICH WOULD INVOLVE A MINIMUM THREE-TO-FOUR MONTH
PERIOD. HE ALSO REVIEWED CONTINUING DEPRESSED CONDITION OF US
SPECIALTY STEEL SITUATION WHICH IS ANALAGOUS TO EC SITUATION
IN TERMS OF CAPACITY UTILIZATION AND OTHER MEASURES. WOLFF INDICATED
THAT WHILE HE UNDERSTOOD THE EC'S CONCERNS, THERE WOULD BE SOME
DIFFICULTY IN PROPOSING ELIMNATION OF PROTECTION AT
THIS TIME. BUT US DEL PROMISED, TO EXTENT POSSIBLE,
TO MAKE EFFORT TO ALLEVIATE EC PROBLEMS, AND TO CONVEY

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

EC CONCERN ON MONITORING DATA.
US DEL ALSO PROMISED TO REPORT TO WASHINGTON EC
HOPE THAT NECESSARY PROCEDURES FOR LIBERALIZING QUOTAS FOR SOME
CATEGORIES WOULD BE INITIATED SOON TO AVOID US/EC CONFRONTATION
IN MARCH WHEN QUOTAS FILL.

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PAGE 01 EC BRU 11929 03 OF 03 061957Z
66
ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 STRE-00 INT-05 AID-05
CEA-01 CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00
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LIMITED OFFICIAL USE SECTION 3 OF 3 EC BRUSSELS 11929

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EC-JAPAN AGREEMENT
20. EC COMMISSION AND GOJ HAD REGULAR AND INFORMAL CONSULTATION
ON STEEL FOR TEN YEARS. AT LASTMONTH'S MEETING, EC COMMISSION
RAISED QUESTION OF AGGRESIVE JAPANESE EXPORT PRICE POLICY,
VOLUME OF IMPORTS TO EC, AND PRODUCT MIX OF EXPORTS (I.E.
LARGE INCREASES IN CATEGORIES SHIPPED BY SMALLER JAPANESE PRODUCERS).
THEY ALSO STRESSED THE RAPID DECLINE OF EC SHARES IN THE WORLD
MARKET.

21. THE JAPANESE RESPONDED BY ASSURING EUROPEANS THEY WOULD
TRY TO GET BUSINESSES TO BEHAVE MORE REASONABLY ON PRICES
AND INDICATED THAT IF THE SIX MAJOR PRODUCERS (BIG SIX)
ASKED FOR A PROLONGATION OF THE EXPORT CARTEL AS EXPECTED,
THE GOJ WOULD APPROVE. (HE INDICATED THAT SUBSEQUEST DISCUSSIONS
HELD QUARTERLY BETWEEN THE BIG SIX JAPANESE AND EUROPEAN STEEL
PRODUCERS WOULD CONSIDER QUARTERLY AND PRODUCT DISTRIBUTION.)
THE GOJ ALSO PROMISED TO TALK WITH THE LARGEST NON-CARTEL
PRODUCERS THAD THEY HOPED THEY WOULD DIMINISH THEIR EXPORTATION
IN QUOTE A SUBSTANTIAL WAY UNQUOTE.
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GOJ ALSO INDICATED THAT SPECIALTY STEEL IMPORTS WOULD REMAIN AT ABOUT THE SAME LEVEL AS THIS YEAR. LOEFF SAID THAT GOJ INDICATED JAPANESE EXPORTS WOULD DROP ABOUT 15 PERCENT FORM THIS YEAR'S LEVELS TO 1.3-1.4 MILILION METRIC TONS (WITH THE BIG SIX STAYING ESSENTIALLY LEVEL AND SMALL PRODUCERS CUTTING BACK SUBSTANTIALLY).

22. ON THIRD COUNTRY MARKETS THE GOJ WOULD TRY TO CONVINCE INDUSTRY TO BEHAVE IN A REASONABLE WAY ON EXPORTS TO SWITZERLAND, BUT SAID NOTHING ABOUT OTHER MARKETS.

23. LOEFF MAINTAINED THIS ENCOUNTER DID NOT CONSTITUTE AN AGREEMENT OR EVEN AN UNDERSTANDING.

24. US DEL EXPRESSED APPRECIATION HEARING EXPLANATION DIRECTLY FROM EC BUT SUGGESTED THAT THESE SECRETIVE BILATERAL ENCOUNTERS RISKED PROVOKING MORE TRADE PROBLEMS THATN THEY SOLVED AND THAT TRADE MEASURES SHOULD BE REVIEWED MULTILATERALLY IN GATT OR OECD FRAMEWORK. (DEL STATED USG WAS CONSIDERING REQUESTING OECD REVIEW ON STEEL AND OTHER TRADE ITEMS, WEEK OF JAN 10 ON EC/GOJ MEASURES. LOEFF SOUGHT TO DISCOURAGE THIS SORT OF MULTILATERAL REVIEW OF BILATERAL TRADE TALKS.) DEL ALSO POINTED OUT THAT UNDER US LAWS, THERE WOULD BE ANTI-TRUST PROBLEMS IF ITS COMPANIES WERE TO ENGAGE IN SUCH INDUSTRY-TO-INDUSTRY TALKS.

25. US DEL ALSO TOLD EC ABOUT AGENDA FOR MEETING IN TOKYO.

FUTURE CONTACTS.
26. LOEFF STRESSED EC DISIRE FOR FUTURE CONTACTS ON PATTERN OF PREVIOUS EC INFORMATIONAL EXCHANGES WITH THE JAPANESE AND SWEDEN FOR PURPOSE OF EXCHANGE OF INFORMATION AND DISCUSSION OF MUTUAL PROBLEMS. HE INDICATED A STRONG AVERSION TO DOING ANYTHING IN THE GATT WHICH HE FELT WOULD ONLY BLOW UP DIFFICULTIES. HE SUGGESTED THE PROBLEMS COULD BE CONTROLLED THROUGH BILATERAL INFORMAL DISCUSSIONS OUTSIDE OF GATT RULES AND THOUGHT THIS WOULD BE THE BEST WAY TO KEEP TRADE FREE. FIELDING SUGGESTED THAT REGULAR US/EC SEMI-ANNUAL BILATERALS CONTAIN A STEEL COMPONENT.

27. US DEL SAID IN NEXT COUPLE OF WEEKS BOTH SIDES SHOULD
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REFLECT ON WHAT NEXT STEPS WERE NEEDED TO PROCEED TO BROADEN SOLUTIONS OF STEEL PROBLEMS, SUCH AS A TRILATERAL, OECD, OR GATT MEETING, AND SHOULD FOCUS ON BOTH EXCHANGES OF INFORMATION AND CONSIDERATION OF STATE OF TRADING RULES. WOLFF ARGUED THAT SOME RULES ARE NEEDED TO PREVENT ABUSES OF

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

AN INFORMAL SYSTEM THAT ENCOURAGES PROTECTIONISM.
IT WAS AGREED THAT IN CONSIDERING A BROADER MEETING, THERE OUGHT
TO EVOLVE FURTHER A CONSENSUS AMONG THE MAJOR PRODUCING
COUNTRIES ON WHAT THEY WOULD HOPE TO GET FROM SUCH A MEETING.
ULTIMATELY THE USG PREFERRED THAT TRADE PROBLEMS SHOULD BE
DEALT WITH MULTILATERALLY, WITH RULES ESTABLISHED IN THE MTN
BUT US IS STILL IN PROCESS OF DRAWING UP ITS PROPOSAL
FOR PROCEEDING WITH STEEL ISSUE IN MTN.HINTON

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Margaret P. Grafeld
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EO Systematic Review
04 MAY 2006

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To: STATE INFO ALL EC CAPITALS
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